20 True or False

Decide, then check the answer and reason below each statement.

Question 1

CAIIB BFM (Bank Financial Management) is one of the core compulsory papers of the CAIIB exam conducted by IIBF.

TRUE

IIBF designates BFM as a compulsory paper covering treasury, forex, risk and balance-sheet management.

Question 2

A Nostro account is a bank's own foreign-currency account held with a bank abroad.

TRUE

Nostro means our account with you, held with a correspondent bank overseas.

Question 3

Under UCP 600, an issuing bank has a maximum of five banking days after presentation to examine Letter of Credit documents.

TRUE

UCP 600 sets this five-banking-day limit for document examination.

Question 4

Banking book exposures in BFM are generally held to maturity with income booked on an accrual basis.

TRUE

This accrual treatment distinguishes the banking book from the mark-to-market trading book.

Question 5

Standard VaR models typically assume normal market conditions, which can understate risk during extreme events.

TRUE

This is why stress testing is used alongside VaR in risk management.

Question 6

A currency swap involves exchanging principal and interest payments in two different currencies.

TRUE

Currency swaps are used to manage cross-currency funding and rate exposure.

Question 7

An integrated treasury combines money market, securities market and forex operations under one dealing room.

TRUE

Integration enables faster fund transfers and arbitrage across markets.

Question 8

Market risk includes the risk of a fall in the mark-to-market value of equity holdings.

TRUE

A decline in MTM equity value is a classic example of market risk.

Question 9

Direct arbitrage takes place between two financial centres, while triangular arbitrage involves three.

TRUE

The number of centres involved distinguishes direct from triangular arbitrage.

Question 10

CAIIB BFM questions are considered application-heavy, often testing numerical problems like BPV rather than pure definitions.

TRUE

Examiners favor scenario and calculation-based questions over rote definitions in BFM.

Question 11

A Vostro account is a bank's own foreign-currency account held with a bank abroad.

FALSE

That describes a Nostro account; a Vostro account is a foreign bank's account held with the home bank.

Question 12

CAIIB BFM has only three modules instead of four.

FALSE

BFM is organised into four modules: International Banking, Risk Management, Treasury Management and Balance Sheet Management.

Question 13

Under UCP 600, an issuing bank has 21 days after presentation to examine Letter of Credit documents.

FALSE

UCP 600 actually caps document examination at a maximum of five banking days.

Question 14

A put option is in the money only when its strike price is lower than the market price.

FALSE

A put option is in the money when the strike price is higher than the market price.

Question 15

The historical simulation method of VaR relies on assumed statistical distributions rather than actual past price movements.

FALSE

Historical simulation instead reprices positions using real historical market data.

Question 16

Trading book exposures are held to maturity with income recognised on an accrual basis.

FALSE

That describes the banking book; trading book positions are marked to market instead.

Question 17

Effective risk mitigation reduces downside risk without reducing potential profit.

FALSE

Risk mitigation generally reduces both downside potential and profit potential together.

Question 18

A Loro account is a bank's own foreign-currency account maintained abroad.

FALSE

A Loro account refers to a third party's account, not the reporting bank's own account.

Question 19

Triangular arbitrage takes place between only two financial centres.

FALSE

Triangular (three-point) arbitrage involves three financial centres, not two.

Question 20

CAIIB BFM is a purely theoretical paper with no numerical or calculation-based questions.

FALSE

BFM is application-heavy, with numericals such as BPV and duration forming a key part of the paper.